Breaking Up (With Your Financial Advisor) Can Be Hard to Do

Description

To paraphrase the old song, breaking up with your financial advisor is hard to do.

Looking back at my personal history, I can recall three advisors with whom I parted ways, though, fortunately, I am still on good terms and in regular contact with two of them, as well as a fourth with whom I still do business.

The first was a classic high-fee mutual fund salesperson who — I blush to admit — I encountered at a “free” financial seminar early in the late 1980s or early 1990s at the height of what was then termed “mutual fund mania.” He was pretty good, actually, and, of course I didn’t have much money to invest at the time, so whatever supposedly “high” fund MERs I was paying, I doubt I was an especially lucrative client for him.

At some point, I had become more educated about mutual funds — perhaps writing five annual mutual fund guides for the *Financial Post* had something to do with that! — and I ended up with a well-known Canadian stock guru for a couple of years who briefly had entered the stock brokerage business. This was a good thing while it lasted, but within a year or two, he left that particular firm to start his own service, but he left me in good hands with a younger colleague he respected.

And that went on for several years in relative harmony: it was a traditional stock brokerage, and I was comfortable paying what were relatively high “full-service” trading commissions, since I was mostly a buy-and-hold investor, and was gradually shifting to exchange-traded funds (ETFs). As I have written elsewhere in the past, as long as you can trust a broker not to conduct unnecessary churning, full-service full commission brokerage is not that bad a deal.

Unfortunately, my advisor got into his head the notion that he wanted to switch clients like me to a fee-based model, wherein I’d be charged somewhere between 1% and 1.25% of my portfolio value every year; that’s reasonable for many people, but too much for me, I thought. (Keep in mind that as a financial journalist, I had access to many other advisors, merely by picking up the phone and chatting about some upcoming article.)

So, I switched to a true fee-for-service financial planner who does NOT charge by assets under management, but merely charges a modest set annual fee for “guidance” and regular email blasts of what he is personally doing. Unlike the previous three advisors, I couldn’t just get on the phone and ask to buy or sell something; this new advisor — who I am still with a good 10 years later — encouraged me to open a discount brokerage account and make my own trades. The philosophy is a bit like the old bromide that once you teach a man (or woman) to fish, he or she will never go hungry again.

I was moved to look back at my own advisory relationships after a TV network asked me to comment on the emotional and practical sides of “breaking up” with an advisor. As recounted above, the emotional side wasn’t that complicated; these are business relationships requiring some measure of give and take, and like any such relationship, it needs to be a “win-win” for both sides if it is to endure for more than a year or two. I wouldn’t compare it to marriage because most advisors have a “book” of many clients — often hundreds of them.

As for the cost side, that does exist. In the first case I recounted, there may have been mutual funds with Deferred Sales Charges (DSC) that trigger redemption charges if you “break up” in the first six or seven years. There may also be some tax consequences in non-registered portfolios, although in my case — and as it normally is with newer investors starting out — if most of your money is in registered accounts like RRSPs or TFSAs, then the tax impact of switching advisors (and with them, institutions) will be minimal.

To be sure, transferring large-ish portfolios from one financial institution to another can be a convoluted process that takes a few weeks. For the most part, the outgoing and incoming advisors will deal with it, although you will likely have to meet in person with both parties (separate meetings, of course!) and sign a bunch of documents you probably won’t read very carefully.

During this interregnum there may be some minor inconvenience to the extent you may not be able to make any trades or invest new funds. In the unlikely event the market is crashing during this transition, that could prove to be quite distressing, but I’d guess that most often the market will fluctuate up and down with no profound consequences for your net worth.

If it’s time to change, you’ll know in your gut. Most often it will be because of a growing awareness of investment costs. These days, it’s hard to read a family finance profile in a newspaper or magazine without encountering the recommendation for a high-net-worth family to ditch a high-fee mutual fund advisor for a fee-based one that uses low-fee ETFs or no-load mutual funds.

Later in life, portfolios will be large enough that the hassle and emotional cost of switching will more than pay for itself in reduced fees. For example, a $1 million mutual fund portfolio invested in typical annual fees of 2.5% costs $25,000 a year. Switch to a model charging just 0.5%, and that’s a $20,000 annual saving — more than enough to make up for a heart broken by a severed relationship with your advisor.

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